# CERTIFIED PLAN SPONSOR PROFESSIONAL (CPSP) PRACTICE EXAM (SAMPLE)

## STUDY GUIDE



## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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# How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

### 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

### 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

### 3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

### 4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

### 5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

### 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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# Questions

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**1. Which option correctly describes the fiduciary duties Debbie has as a fiduciary for the company's 401(k) plan?**

A. To focus only on investment performance

B. To hire the cheapest service providers

C. To ensure benefits for participants and reasonable expenses

D. To avoid any conflicts of interest

**2. Which asset class generally provides the least amount of investment risk but also the lowest return?**

A. Stocks

B. Bonds

C. Money market funds

D. Real estate investment trusts (REITs)

**3. What must plans ensure regarding their benefits and rights provision?**

A. Non-discrimination towards employees

B. Provision of minimum benefits only

C. Flexibility for plan sponsors

D. Regular updates on regulations

**4. True or False: The fear of loss impedes some plan participants' saving and investing decisions more than the value of potential gains.**

A. True

B. False

C. Partially True

D. Not enough information

**5. What is indicated by a 401(k) participant making annual pre-tax deferrals of $22,000?**

A. The participant is likely under age 50.

B. The participant is making catch-up contributions due to being age 50 or older.

C. The participant is actively withdrawing funds.

D. The participant is claiming deductions on their tax return.

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**6. Which of the following is NOT true about exchange traded funds (ETFs)?**

A. ETFs can be traded throughout the day on an exchange.

B. ETFs often have lower expense ratios compared to mutual funds.

C. ETFs require a minimum investment similar to mutual funds.

D. ETFs typically have a diversified portfolio of underlying assets.

**7. What document must be given to a participant who requests a distribution of benefits after terminating employment?**

A. A notice explaining the taxation of retirement distributions

B. A summary of available benefits

C. A list of investment options

D. A statement of account balance

**8. When must an ADP test safe harbor notice be provided to all eligible employees?**

A. At least 30 days and no more than 90 days before each plan year

B. At the beginning of the plan year

C. Within one week of the enrollment period

D. Before any employee can participate in the plan

**9. What is the primary objective of using a diversified portfolio according to modern portfolio theory?**

A. To achieve maximal returns regardless of risk factors.

B. To minimize overall investment costs.

C. To reduce risk for any expected level of return by combining negatively correlated assets.

D. To create a portfolio with the highest possible returns.

**10. How are Voluntary After-tax contributions taxed when withdrawn from the plan?**

A. They are fully tax-exempt

B. Contributions are taxed, but earnings are tax-exempt

C. Earnings are taxed, but contributions are tax-exempt

D. Both contributions and earnings are taxed

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# Answers

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1. C
2. C
3. A
4. A
5. B
6. C
7. A
8. A
9. C
10. C

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# Explanations

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**1. Which option correctly describes the fiduciary duties Debbie has as a fiduciary for the company's 401(k) plan?**

A. To focus only on investment performance

B. To hire the cheapest service providers

C. To ensure benefits for participants and reasonable expenses

D. To avoid any conflicts of interest

*Debbie's role as a fiduciary for the company's 401(k) plan entails a duty to act in the best interests of the plan participants. This responsibility includes ensuring that the benefits provided to participants are protected and that the plan incurs reasonable expenses. Fiduciaries are required to prioritize the interests of plan participants over their own or those of the company, making it essential to develop a prudent process for evaluating services and investments. By focusing on both benefits for participants and maintaining reasonable expenses, Debbie upholds her obligation to provide a retirement plan that effectively supports its users while managing costs effectively. This dual emphasis ensures that participants receive adequate retirement security without excessive fees that could erode their savings over time. In contrast, merely concentrating on investment performance would ignore other critical aspects of fiduciary duty, such as ensuring that fees are equitable. Hiring the cheapest service providers may overlook the quality of services needed to effectively manage the plan, while avoiding any conflicts of interest is important but does not encompass the full scope of fiduciary duties, which also includes the financial health and management of the plan.*

**2. Which asset class generally provides the least amount of investment risk but also the lowest return?**

A. Stocks

B. Bonds

C. Money market funds

D. Real estate investment trusts (REITs)

*Money market funds are designed to provide a safe and stable investment option, which is why they generally exhibit the least amount of investment risk among the asset classes listed. These funds primarily invest in short-term, high-quality debt instruments, such as Treasury bills, commercial paper, and certificates of deposit, which are considered very low risk due to their short maturities and the high credit quality of the underlying securities. Investors typically choose money market funds when they prioritize capital preservation and liquidity over higher returns. Consequently, while they offer the safety of principal, the returns from money market funds are usually the lowest compared to stocks, bonds, and real estate investment trusts (REITs), which have higher potential returns but also come with greater risk. In contrast, stocks often provide higher potential returns due to their exposure to the performance of companies and the overall market, but they also carry higher volatility and risk. Bonds, while generally safer than stocks, can still experience fluctuations in value and interest rate risk. REITs tend to yield higher returns as they invest in real estate and may provide both capital appreciation and income through dividends, yet they also involve market and sector-specific risks. Therefore, the inherent characteristics of money market funds make them uniquely positioned to provide the lowest*

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## 3. What must plans ensure regarding their benefits and rights provision?

A. Non-discrimination towards employees

B. Provision of minimum benefits only

C. Flexibility for plan sponsors

D. Regular updates on regulations

*Plans must ensure non-discrimination towards employees because this principle is a foundational element of employee benefit laws, particularly under regulations such as the Employee Retirement Income Security Act (ERISA) and the Internal Revenue Code. Non-discrimination provisions are designed to ensure that all eligible employees, regardless of characteristics like salary level, job status, or demographic group, have equal access to benefits. This helps promote fairness and equity within the workplace, preventing any undue advantages for certain groups of employees over others. By adhering to non-discrimination policies, plans foster an inclusive environment that rewards participation rather than penalizing individuals based on their position or other factors that don't reflect their contributions to the organization. This is crucial for maintaining a harmonious workplace culture and compliance with legal requirements. Other options, such as focusing solely on minimum benefits or allowing flexibility for plan sponsors, do not emphasize the importance of fair treatment among all employees. Regular updates on regulations, while important for compliance, do not directly tie into the equitable distribution of benefits among plan participants. Thus, ensuring non-discrimination is the most critical aspect in the context of employee benefit plans.*

## 4. True or False: The fear of loss impedes some plan participants' saving and investing decisions more than the value of potential gains.

A. True

B. False

C. Partially True

D. Not enough information

*The assertion that the fear of loss impedes some plan participants' saving and investing decisions more than the value of potential gains is rooted in behavioral finance principles. Loss aversion, a key concept in this field, suggests that individuals tend to prefer avoiding losses over acquiring equivalent gains. This means that the psychological impact of losing money can significantly outweigh the positive feelings associated with gaining money. In the context of saving and investing, this fear of loss can lead to overly cautious behavior, causing participants to shy away from potentially beneficial investments or from contributing sufficiently to their savings plans. They might choose safer, less rewarding options or delay investing altogether due to the anxiety associated with possible losses. This behavior can ultimately hinder their ability to grow their savings and achieve long-term financial goals. Therefore, the statement is true: the fear of loss can indeed have a more significant impact on decision-making for some participants than the perceived value of potential gains.*

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**5. What is indicated by a 401(k) participant making annual pre-tax deferrals of $22,000?**

A. The participant is likely under age 50.

B. The participant is making catch-up contributions due to being age 50 or older.

C. The participant is actively withdrawing funds.

D. The participant is claiming deductions on their tax return.

*The choice indicating that the participant is making catch-up contributions due to being age 50 or older is correct because individuals aged 50 and older are permitted to make additional contributions to their 401(k) plans beyond the standard contribution limit. In 2023, the standard pre-tax deferral limit for a 401(k) participant is $22,500. However, for participants aged 50 and over, there is an additional catch-up contribution limit of $7,500, allowing them to contribute more than the standard limit. Thus, if a participant is contributing $22,000, it suggests they are utilizing some form of catch-up contribution, indicating they are likely at least 50 years old, given the ability to contribute above the base limit. This aligns with IRS regulations designed to help older workers save more for retirement as they approach their retirement years. Other options do not capture the specifics of the 401(k) program's contribution limits and age-related provisions.*

**6. Which of the following is NOT true about exchange traded funds (ETFs)?**

A. ETFs can be traded throughout the day on an exchange.

B. ETFs often have lower expense ratios compared to mutual funds.

C. ETFs require a minimum investment similar to mutual funds.

D. ETFs typically have a diversified portfolio of underlying assets.

*The statement indicating that ETFs require a minimum investment similar to mutual funds is not true. Unlike mutual funds, which often have specific minimum investment requirements that can range from hundreds to thousands of dollars, ETFs can typically be bought in shares on an exchange without a minimum investment amount. This flexibility allows investors to purchase as few shares as they wish, making ETFs more accessible to a broader range of investors. In contrast, the other statements accurately describe characteristics of ETFs. They can indeed be traded throughout the day on an exchange, offering investors the ability to buy and sell shares in real-time just like stocks. Additionally, ETFs usually have lower expense ratios compared to mutual funds, primarily due to their passive management structure and lower operating costs. Lastly, ETFs are known for maintaining a diversified portfolio of underlying assets, which helps mitigate risk for investors.*

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## 7. What document must be given to a participant who requests a distribution of benefits after terminating employment?

A. A notice explaining the taxation of retirement distributions

B. A summary of available benefits

C. A list of investment options

D. A statement of account balance

*The requirement to provide a notice explaining the taxation of retirement distributions to a participant who requests a distribution of benefits after terminating employment is based on regulatory guidelines intended to ensure that participants are fully informed of the tax implications of their distribution choices. This notice typically highlights key tax consequences, such as potential penalties for early withdrawal, the withholding tax rate, and the impact of rolling over the distribution into another retirement account. Having this information is crucial for participants, as it helps them make informed decisions regarding their retirement funds. Understanding the tax implications allows participants to plan appropriately for their financial needs after employment and avoid unexpected tax liabilities. Proper adherence to these requirements helps protect both the participants and the plan sponsors from future disputes or legal complications related to taxation. While the other options provide valuable information—such as a summary of available benefits, a list of investment options, or a statement of account balance—they do not specifically address the need for awareness around tax implications, which is a critical factor when making distribution decisions after termination of employment.*

## 8. When must an ADP test safe harbor notice be provided to all eligible employees?

A. At least 30 days and no more than 90 days before each plan year

B. At the beginning of the plan year

C. Within one week of the enrollment period

D. Before any employee can participate in the plan

*The correct timing for providing an ADP (Actual Deferral Percentage) test safe harbor notice is at least 30 days and no more than 90 days before each plan year begins. This requirement ensures that eligible employees receive adequate notice regarding the plan's features and their opportunities to participate well in advance of the new plan year. This notice detail is crucial because it informs employees about the plan provisions that fulfill safe harbor requirements, ultimately guiding their enrollment decisions and contributions accordingly. Providing this information within the specified timeframe allows employees to make informed choices about their participation and contribution levels in the retirement plan, which is necessary for compliance with federal regulations. Other options do not align with the regulatory requirements. Giving the notice at the beginning of the plan year does not provide employees the necessary time to consider their options. If it is provided only within one week of the enrollment period, it may not be sufficient time for employees to make informed decisions, and notifying employees before any participation could be impractical as it does not correlate with a specific timeframe related to the annual cycle of the plan.*

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**9. What is the primary objective of using a diversified portfolio according to modern portfolio theory?**

A. To achieve maximal returns regardless of risk factors.

B. To minimize overall investment costs.

C. To reduce risk for any expected level of return by combining negatively correlated assets.

D. To create a portfolio with the highest possible returns.

*The primary objective of using a diversified portfolio, as outlined in modern portfolio theory, is centered around the idea of reducing risk for a given level of expected return by combining assets that are negatively correlated. This means that when one asset performs poorly, another may perform well, which helps to buffer the overall volatility of the portfolio. By strategically selecting a mix of various asset types—such as stocks, bonds, and real estate—that do not move in sync with each other, an investor can construct a portfolio that protects against downturns in the market. This approach acknowledges that while no investment is free of risk, diversification allows an investor to optimize their returns for a given level of risk tolerance. Thus, the correct understanding aligns with modern portfolio theory's emphasis on balancing risk and return through the combination of different assets.*

**10. How are Voluntary After-tax contributions taxed when withdrawn from the plan?**

A. They are fully tax-exempt

B. Contributions are taxed, but earnings are tax-exempt

C. Earnings are taxed, but contributions are tax-exempt

D. Both contributions and earnings are taxed

*When it comes to Voluntary After-tax contributions, the taxation upon withdrawal operates under specific rules. Contributions made as after-tax are already taxed before they are contributed to the retirement plan. Therefore, when these contributions are withdrawn, they are not subject to additional taxation, meaning they are tax-exempt. On the other hand, any earnings that accrue on those after-tax contributions are subject to taxation upon withdrawal. This reflects the common tax treatment of after-tax contributions, where the principal (the contributions) are not taxed again, but the growth or earnings generated over time are taxed as ordinary income when distributed. Hence, the correct understanding is that earnings are taxed upon withdrawal, while the contributions themselves remain tax-exempt. This aligns with the tax treatment established for Voluntary After-tax contributions in retirement plans.*

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# Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://certifiedplansponsorprofessional-cpsp.examzify.com

We wish you the very best on your exam journey. You've got this!

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